CANACCORD Genuity
Wealth Management

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# Weekly Note

To us there are no foreign markets.™


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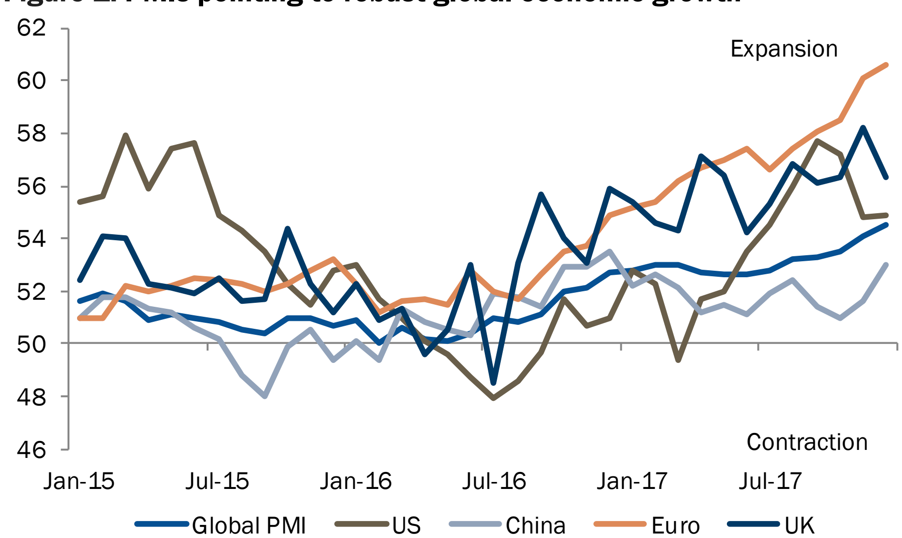
## Things Can Only Get Better

Global stock markets have started the new year as they have left off with the FTSE All World Index (developed plus emerging markets) up an impressive 1.8% in local currency terms (to 4th January). This follows the 17.7% return in 2017. The positive start to 2018 reflects robust economic indicators which are pointing to an ongoing strong synchronised global growth. The strong readings from the purchasing managers indices (PMIs) globally which serve as a good proxy of short term economic activities is boosting companies' earnings prospects.

**Figure 1: PMIs pointing to robust global economic growth**

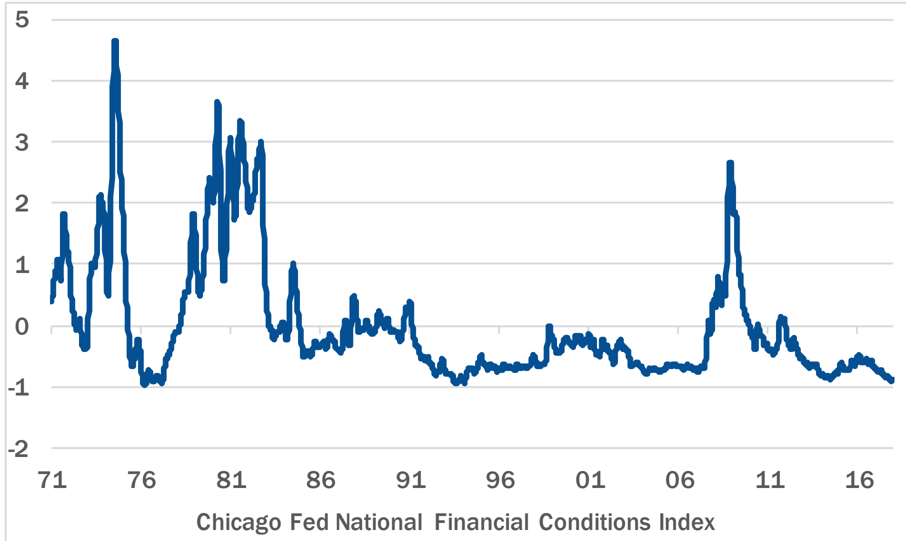



*Source: Datastream, Canaccord Genuity Wealth Management*

The economic momentum in the Euro area has been exceptionally strong given the extremely loose monetary conditions, stronger domestic demands and an improving global economy. In December 2017, the European Central Bank (ECB) maintained its main policy rate, the refi rate, at 0.0% and confirmed its intention to continue with its bond buying programme of E30bn per month from E60bn per month previously until at least September 2018. We would note that structural challenges remain which hinder the region's medium-term outlook and that in the near term, there remains political risks with general elections in Italy due in March this year, the possibility of another general elections in Germany and the Brexit negotations.

In-spite of the five interest rate hikes by the US Federal Reserve since December 2015 with the last increase in December to a range of 1.25% to 1.5% and the trimming of the central bank's US$4.5 trillion balance sheet (though at a very slow pace), financial conditions remain extremely favourable. Indeed, conditions in the US as measured by the Chicago Fed's National Financial Conditions Index (NFCI) is as loose as it has been going back to 1971 (see Figure 2), in part due to the weaker dollar.

**Figure 2: Financial conditions in the US remain accommodative**

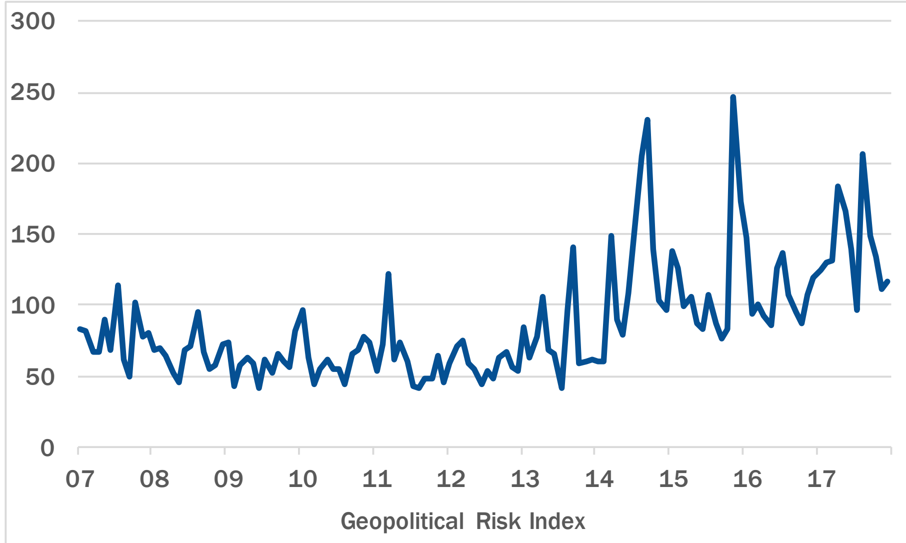



*Source: Chicago Fed, Canaccord Genuity Wealth Management*

Alongside the improved economic momentum, however, we have seen a rise ion geopolitical risk over recent years. Figure 3 highlights the upward trend in the Geopolitical Risk Index from the US Federal Reserve. As we have previously observed markets tend to ignore or recover quite quickly from major geopolitical events. There were plenty of potential catalysts last year, but nothing seemed to shake markets from responding to sound fundamentals.

Given the strength of the stockmarkets, valuation has also become a key area of concern among some investors. The global stockmarket as measured by the FTSE World Index is currently trading marginally above its 30-year average on a trailing price-to-earnings (PE) and price-to-book (PB) basis. On a trailing dividend yield (DY) basis, the Index is trading in-line with its long run average. The global stockmarket remains below its peak valuations across all three valuation measures. Given the fair value in the global stockmarket, the synchronised global economic momentum, positive earnings growth and the still accommodative global monetary policies we remain positive on equities.

**Figure 3: Geopolitical Risk remains high**




*Source: Federal Reserve, Canaccord Genuity Wealth Management*

**Figure 4: FTSE World Index – trailing PE**


*Source: Datastream, Canaccord Genuity Wealth Management*

Goldilocks seems to be the most appropriate description of markets right now, and very little seems to upset them. For now, at least, we expect markets to continue much as they have done through the last half of 2017 into the first half of 2018.